

Schedule of Audit Findings

Thurston County Conservation District January 1, 1993 through December 31, 1999

1. State grants were charged for work that was not performed.

Background

The Thurston County Conservation District's operations are primarily funded by a special tax assessment and by state grants. Thurston County assesses the special assessment on all parcels of land within the County, except those specifically exempted. In 1999, the District had \$1,080,954 in total revenue, \$453,309 from tax assessment money and \$535,214 from state and local grants. This level of funding is consistent with amounts received in other years.

In October 1999, citizens and former employees raised several concerns regarding timesheets being altered or falsified by District employees and management. Their main concern was that some payroll costs charged to state grants were for time not actually spent working on the grants.

Our review of the concerns included interviews with current and former employees of the District. They stated District management instructed them to record their time on the timesheets based upon the anticipated budget for the position, not on how much work was actually done on projects paid for by the grant. Former and current employees stated that the actual projects they worked on did not agree to those budgeted percentages and that a reconciliation of estimated allocations to actual expenses did not occur.

While some employees completed their timesheets in accordance with instructions from District management, others recorded actual hours worked on their timesheets. The timesheets, which reflected actual hours, were not used to prepare the reimbursement requests submitted to the grantors.

Description of Condition

District management, employees and former employees stated that this method of charging grants had been the practice for several years, and was consistently applied to all grants received.

We selected the following grants for testing:

Name of Grant	Grant Number	Grantor	\$Expended in 1999
Eld	#G9500295	Department of Ecology	\$38,575
North Thurston County Ground Water (NTCGW)	#G9400080	Department of Ecology	\$42,091
Totten	#G9300140	Department of Ecology	Grant was closed as of December 1998, however grant work was performed in 1999.
South Sound Water Quality	#97-13-PS	State Conservation Commission	\$34,134

All of the grants selected for review are on a reimbursement basis, meaning the District performs the work and then submits a request to the grantor to be reimbursed for costs associated with the work performed. Each particular grant or contract specifies allowable costs, or those considered to be related to a project or grant objective.

We reviewed the grant reimbursement requests for the first three quarters of 1999. Most of the costs charged to the grants were for payroll of District employees who worked on the projects. We determined:

- Requests for reimbursement in the first and second quarters of 1999 were not based on actual time worked on the grant. We found that hours recorded on employee timesheets did not agree with the hours charged to the grant. We noted instances of grants being over and under charged. District management could not provide explanations for the differences.
- In the second quarter, for all three of the grants mentioned above, the District was allowed by the Department of Ecology to charge indirect costs or those that are common overhead costs such as postage and office supplies that are difficult to associate with a specific program. We determined that costs that should have been included in the indirect cost allocation were charged directly to the grant. This resulted in some costs being charged twice. Although these double billings were caught and disallowed by the grantor, it demonstrates the District did not have adequate monitoring to prevent that from occurring.

In August 1999, a new accountant was hired by the District. We reviewed charges to the same grants for the third quarter of 1999. All charges to the grants were properly supported by timesheets. All direct and indirect costs appeared proper. Based on these improvements, we determined a review of the fourth quarter of 1999 was not necessary.

We did not perform a detailed review of grant charges prior to 1999 because the District stated the same billing method that was used during the first quarter of 1999 had been in place for many years. Our overview of 1998 transactions confirmed we would identify similar weaknesses in past periods.

In our assessment, due to the nature and pervasiveness of the control weaknesses identified in the District's record keeping and cost accounting for grants, improper charges could be significant over time. However, we also recognize extensive audit effort would be required to specify and quantify such improprieties which may be cost-prohibitive. In such cases, it is common to contact the granting agency and explain the conditions noted and assess their interest in pursuing the audit effort.

During this audit period, the District had several grants and contracts, the largest grantor being the Department of Ecology. We contacted the Department and apprised them of our observations, specifically inaccurate charges to their grants and the District's non-compliance related to record keeping requirements. The Department stated that further review on their behalf was not warranted because they were not inclined to pursue any further action or seek reimbursements from the District.

We have determined that reporting on actions at the District would ensure that all possible grantors are made aware of these conditions, have the opportunity to evaluate what we found and make their own determination as to how they would choose to use this information.

Cause of Condition

The District did not keep records in accordance with grant requirements and did not have an adequate system in place for billing grants or monitoring grant budgets.

District management directed staff to record inaccurate time and effort activity on timesheets.

While it is allowable for the District to charge a set percentage or budgeted amount of each employee's time to a grant, reconciliation between the actual hours worked to budgeted hours charged must be completed, and any adjustments necessary completed on a periodic basis. The District did not perform that reconciliation.

Effect of Condition

State grants were not correctly charged. The Totten grant was closed as of December 1998 and assessment money was used to complete this project. The following is an outline of the over/under charges to the grants we reviewed:

Amount over or under charged	Eld	NTCGW	SS Water Quality	Totten
1 st Quarter	\$3,490.49	(\$1,880.38)	\$697.92	(\$2,089.92)
2 nd Quarter	\$3,302.26	(\$3,647.10)	\$6,943.76	\$0
Unallowable indirect costs (2 nd quarter only)	\$121.47	\$94.83	\$110.66	\$0
Total	\$6,914.22	(\$5,432.65)	\$7,752.34	(\$2,089.92)

Because of this condition, the public and grantors are unable to determine if the District is managing state and local grants in compliance with contract terms. Additionally, it increases the potential that resources may be used in a manner inconsistent with the terms and conditions of grants and that resources are not safeguarded against waste, loss and misuse.

These significant deficiencies in the internal control structure adversely affect the District's ability to record, process, summarize and report financial data in a manner that is required by the grant contracts and is in accordance with applicable laws and regulations.

Recommendations

We recommend the District ensure employees complete accurate timesheets. The District should develop a system to bill grants for actual charges and a system to adequately account for and monitor grant budgets and expenditures. Accounting systems must identify the sources and uses of funds by grants. Additionally, the District should only charge allowable costs to the grants.

Auditee's Response

The District thanks the Auditor for bringing this internal control weakness to our attention. The District has taken the following steps to rectify this weakness:

- 1. A new District Administrator, District Auditor and Bookkeeper have been hired.*
- 2. All employees have been trained on the importance of keeping accurate time records, including time leave slips.*
- 3. Grant billing requests are prepared based on actual hours worked and are reviewed by the manager in charge of the professional staff before being submitted, effective July 1, 1999.*
- 4. Time sheets are collected twice as often as they were in the past to ensure greater accuracy, effective April 1, 2000.*
- 5. Managers review and approve all time sheets before they are submitted to the Bookkeeper.*
- 6. Payroll is paid 10 days after time reporting periods close, to allow entry and reconciliation of actual time data in a grant accounting system before the pay is disbursed, effective April 1, 2000.*

7. *Managers periodically review assigned tasks to ensure they are being completed in an appropriate and efficient manner. An automated reporting system for tracking task completion compared to project time and dollar budgets is being developed as part of the new internal control system.*
8. *A new system of internal controls is in the process of being adopted. A new accounting system will be a part of this system of controls.*
9. *The newly appointed District Auditor will review monthly financial reports, grant requests and other financial data, and will prepare annual financial statements and BARS reports. In addition, the Auditor will review all internal systems and assist the District and its new management in its goal of maintaining compliance with all applicable laws, rules and standards.*
10. *The State Auditor has been asked to review the new internal control system after it is formally adopted and has been operating for several months. The District expects this review to take place this October or November.*
11. *The State Auditor has been asked to audit District Operations for the year 2000 to ensure compliance with all laws and to certify its financial statements. The District expects this audit to take place in the spring of 2001.*

The District believes these steps will prevent submission of improperly prepared grant reimbursements and provide excellent assurance to the public that all aspects of the District's financial affairs are in good order.

Auditor's Remarks

We appreciate the significant effort and immediate action taken by the District to address the weaknesses noted. We look forward to reviewing the District's progress during our next audit.

Applicable Laws and Regulations

General terms and conditions, *Pertaining to Grant and Loan Agreements of the Department of Ecology*. The following excerpt from the "Audits and Inspections" section requires adequate records to be maintained:

1. The RECIPIENT shall maintain complete program and financial records relating to this agreement. Such records shall clearly indicate total receipts and expenditures by fund source and task or object. All grant/loan records shall be kept in a manner which provides an audit trail for all expenditures
2. All grant/loan records shall be open for audit . . . for a period of at least three years . . . If any such audits identify discrepancies in the financial records, the RECIPIENT shall provide clarification and/or make adjustments accordingly.

The *Revised Code of Washington* (RCW) 43.09.200 states:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction. . . .

Schedule of Audit Findings

Thurston County Conservation District January 1, 1993 through December 31, 1999

2. **The District does not have adequate internal controls over disbursements to sufficiently prevent or detect unallowable expenditures or misappropriation of public assets.**

Background

The Thurston County Conservation District had total expenditures of \$1.1 million in 1999, of which 66 percent were payroll-related expenditures and 34 percent were expenditures for goods and services.

Description of Condition

We reviewed all disbursements as listed in the check registers for the audit period. Based on this review, we noted the disbursements were similar in nature for each of the years. We selected disbursements from 1999 that were representative in nature. From the disbursements selected for testing, the following internal control weaknesses were noted:

- The District does not have policies or procedures in place which outline the approval process for all expenditures. Without proper approval of all expenditures, the District cannot ensure that all payments made are appropriate. We noted the absence of approval on several disbursements reviewed.
- Disbursements were noted that lacked original documentation or sufficiently detailed documentation to support the expenditures paid. We noted checks made payable to cash, payments made from copies of invoices, payments made from a copy of employees' credit card statements, payments made on contracts which had expired, and payments made for which there was no supporting documentation.

Adequate supporting documentation helps the District ensure that all expenditures are legitimate, due and unpaid obligations of the District.

- The District does not have a policy in place to outline when meals are allowable, which may result in the District paying for meals that are not for valid business purposes.

Questionable meal expenditures were noted. These disbursements did not have any documentation to support the business purpose of meals or to whom they were served. The District has not developed a policy to define allowability of meals.

- During our review of the Board minutes, we noted that the District has been awarding a \$1,000 annual college scholarship. The District does not have the statutory authority to fund and award college scholarships.

Cause of Condition

The District does not have adequate internal controls in place to properly monitor and review disbursements. Purchasing policies and procedures have not been adopted which address how disbursements are to be monitored and reviewed.

Additionally, District management was unaware that the District did not have the authority to fund a college scholarship.

Effect of Condition

Without adequate policies and procedures, the District cannot ensure that disbursements are for legitimate District purposes.

Recommendations

We recommend the District establish an effective system of internal control over disbursements, designed to ensure the protection of public assets. We also recommend District staff be appropriately educated and trained on those policies and procedures and the implementation and effectiveness is monitored by management.

Auditee's Response

The District thanks the Auditor for bringing this internal control weakness to our attention. The District has taken the following steps to rectify this weakness:

1. *Currently, all expenditures are reviewed by management before authorization is given. The District Administrator is required to authorize all expenditures over \$250.*
2. *A system of internal controls is being developed. The system will cover revenues and expenditures, personnel and payroll matters, record keeping, and establishing proper lines of authority for making and approving all financial transactions. The District expects to adopt the new system of internal controls in the next two months. A new accounting system will be a part of this system of controls.*
3. *The newly appointed District Auditor will review monthly financial reports, grant requests, and other financial data, and will prepare annual financial statements and BARS reports. In addition, the Auditor will review all internal systems and assist the District and its new management in its goal of maintaining compliance with all applicable laws, rules and standards.*
4. *The State Auditor has been asked to review the new internal control system after it is formally adopted and has been operating for several months. The District expects this review to take place this October or November.*
5. *The State Auditor has been asked to audit District operations for the year 2000 to ensure compliance with all laws and to certify its financial statements. The District expects this audit to take place in the spring of 2001.*

The District believes these steps will prevent any unallowable or unauthorized expenditures from being made. Furthermore, the District believes the overall internal control processes it is now adopting will provide excellent assurance to the public that all aspects of the District's financial affairs are in good order.

Auditor's Remarks

We appreciate the significant effort and immediate action taken by the District to address the weaknesses noted. We look forward to reviewing the District's progress during our next audit.

Applicable Laws and Regulations

RCW 42.24.080 states in part:

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be

audited, before payment, by an auditing officer elected or appointed pursuant to statute . . . Such claims shall be prepared for audit and payment on a form in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the political subdivision

RCW 43.09.200 states in part:

The state auditor shall formulate and prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The accounts shall show the receipt, use and disposition of all public property.